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Cuts take center stage in budget floor votes

By **John Howard** | 03/17/11 12:00 AM PST

The first pieces of Gov. Brown's budget package -- and politically, the easiest -- went to the floors of both houses, with lawmakers approving an estimated \$7 billion in cuts targeting welfare programs and Medi-Cal, the health-care system for the poor and elderly.

The fate of California's redevelopment agencies was left in limbo -- at least temporarily -- after Brown's plan to abolish them fell short by a single vote in the Assembly.

Lawmakers planned to return to the Capitol as early as today to consider the rest of the package, which includes tax extensions and placing the issue before voters in June.

Despite closed-door negotiations through the day -- including repeated meetings between the governor -- there did not appear to be sufficient bipartisan support to push through the taxes. For Republicans, the anti-tax politics got even more intense: Their statewide convention begins this weekend and GOP lawmakers who support Brown's tax package face intense pressure from the party's rank-and-file.

This series of trailer bills that lawmakers considered Wednesday were headed by Brown's proposal to eliminate redevelopment.

Some Democrats, while favoring the plan, said they voted only reluctantly to abolish the agencies because of fears that programs to develop affordable housing would be harmed. Republicans, battling the governor over the budget and responding to locals' pleas that redevelopment be spared, opposed the governor's plan.

"We're not going to end redevelopment, we're just going to transfer it to a new forum," said Assemblywoman Diane Harkey, R-Dana Point.

Gov. Brown, a Democrat, offered the budget to resolve a \$25.4 billion budget deficit -- nearly a third of the \$84 billion General Fund -- but Republicans have balked at new taxes or tax extensions.

At the last minute, the agencies themselves offered a plan in which they would voluntarily set aside money for housing and shift those funds instead to schools.

But that proposal did not appear to gain traction: The Senate approved their elimination, and the proposal nearly carried in the Assembly. Brown, too, was opposed.

"We sent this to our members this morning, we are offering this as an alternative to the governor's proposal," John Shirey of the California Redevelopment Association said Tuesday. He said the proposal conformed to voter-approved Proposition 22 and did not require borrowing, an issue raised by the state treasurer.

The agencies who decide to participate in the program also would contribute up to 10 percent of their tax-based revenues to local school districts over the next decade starting this year, a move that would shift \$2.7 billion to schools, Shirey noted.

In return, the agencies would be allowed to remain in existence.

Their proposal, which took two weeks to write, was disclosed internally to the redevelopment agencies, or RDAs, represented by the CRA, which has been fighting Gov. Brown over his proposal.

The governor's office said the CRA plan would "shortchange schools, public safety and other core taxpayer needs by \$12 billion over 10 years."

"Every taxpayer dollar must be committed to urgent core needs like schools, public safety and emergency medical assistance for the most vulnerable," said Brown spokesman Gil Duran.

The proposal marked the latest in a series of bargaining strategies over Brown's budget plan. The RDAs believe Brown's proposal is unconstitutional and a violation of Proposition 22, which voters approved in November to protect local funds against state raids.

The CRA noted that at least one other proposal, one floated by L.A. Mayor Antonio Villaraigosa and other big-city mayors, required borrowing.

Supporters of the governor's plan say the agencies tap billions of dollars worth of tax funds that could be used for critical programs such as schools and emergency services, and they don't provide the economic benefits they claim.

Under one related plan, protections would be ordered for affordable housing funding, perhaps \$1 billion annually, after a one-year hiatus.

The \$1 billion constitutes about 20 percent of the agencies' more than \$5 billion in annual tax revenues.

On the eve of the first budget vote, the formal abolishment of the redevelopment agencies appeared likely.

Gov. Brown has called for their elimination as part of his fiscal plan to help fill a \$25.4 billion budget hole. The move would provide the state about \$1.7 billion. Phasing out the agencies was reflected in the budget conference report now facing votes in both houses. It is that report, crafted by a Democrat-controlled committee representing members of both the Senate and Assembly, that will go to the floors Wednesday.

One key question was how Republicans view abolishing the redevelopment agencies.

"As a local elected leader, I saw firsthand how redevelopment agencies can serve as effective economic engines," said Assembly GOP Leader Connie Conway. "I have concerns about completely eliminating redevelopment programs, but I am open to looking at ways to ensure that these agencies are truly stimulating local economies and putting people back to work."

Under Brown's plan, according to the Legislative Analyst, the redevelopment agencies' unused funds would be shipped to other local entities, who would retire some \$2.2 billion in debt, provide \$1.7 billion for the Medi-Cal program and trial courts, give \$1.1 billion to schools and give cities and special districts some \$210 million.

The money that would go to enterprise zones would be shifted instead to the counties, under the governor's proposal.

The agencies' removal -- at least, theoretically -- allows the state to tap their funding and gets around voter-approved Proposition 22, which barred the state's use of community redevelopment funds. But that measure doesn't bar the state from abolishing the agencies -- and agencies that don't exist don't control money.

Their functions would continue, at least in part, although under a different administrative arrangement.

But for the redevelopment agencies, the issue is straightforward – abolishing them is against the law.

"We believe it is illegal to eliminate redevelopment agencies and reconstitute them as something else," said Kathy Fairbanks, a spokeswoman for the coalition opposing Brown's plan. "They can't be eliminated nor can their money be used for other purposes."

For affordable housing, beginning in 2012-13 property tax funds would be routed to cities and counties through the regional councils of government, the so-called COGs.

The locals would receive grants in proportion to their previous track record for low- and medium-income housing. In all, about \$1 billion annually would be diverted to affordable housing.

The move to protect affordable housing is being pushed by Sen. Mark DeSaulnier, D-Concord. No bill is in print, and language from the Legislative Counsel's office has not been distributed. But the governor reportedly has given him the green light to try to negotiate an agreement.

"I think there is a real possibility here," said DeSaulnier, who chairs the Senate Housing Committee. "The only danger is that everything in a budget is intertwined. And so much of this (redevelopment and affordable housing) are involved in the larger issue. I don't want to be involved with anything unraveling."

Driving the affordable housing piece is the fear that the money – perhaps \$1 billion – would be lost if the Brown's plan is approved as proposed.

"As part of the redevelopment discussion, we don't want to lose sight of this pot of money for affordable housing," DeSaulnier said.

The governor's attempt to eliminate California's redevelopment agencies is but one piece of his proposed 2011-12 budget. But it is one of the most visible. The governor's proposal is backed most strongly by a number of public employee unions, including firefighters and teachers, and opposed adamantly by the RDAs themselves, construction unions, developers and business groups, among others.

Brown's supporters believe the agencies' abolishment would ensure more funding for schools and emergency services, while the RDAs' allies say the plan would cut thousands of jobs and weaken an already-crippled economy.

The Legislative Analyst said the governor's proposal "makes sense, as the state's cost associated with redevelopment have grown markedly over the years even though there is no reliable evidence that this program improves overall economic performance in the state."

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